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## The Long Haul

**Are you afraid your key employees are ready to walk? Here's what you can do to keep your most valuable players around.**

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By Mark Henricks

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Every time one of the 46 employees of J.L. Patterson & Associates leaves, the company loses expertise, incurs the expense of hiring a replacement and risks alienating customers who must deal with a new recruit. "It leaves a huge void," says Jacqueline Patterson, 47-year-old founder of the Orange, California, engineering company with \$7 million in 2005 sales. "We try to avoid having people leave us whenever possible."

Employee retention is a major concern for entrepreneurs everywhere. In fact, entrepreneurs see it as the single most critical factor for business success in 2006, according to *Entrepreneur* magazine and PricewaterhouseCoopers' first annual "Entrepreneurial Challenges Survey," which was reported in the [January issue of Entrepreneur](#). Seventy-three percent of the founders and CEOs of 340 fast-growth businesses surveyed said retaining key workers was the biggest issue they faced. The next-ranking issue, developing new products and services, was named most important by only 38 percent of entrepreneurs.

Experts say retention should be a serious concern. "If you accept high turnover rates, it's costing you a lot," says Greg Smith, a Conyers, Georgia, retention consultant. "It costs about two and a half times a person's annual salary to replace them. And the more talent a person brings to the company, the more expensive that person becomes to replace." High turnover can also affect marketplace perception, employee morale and productivity, and a host of other factors.

Entrepreneurs are especially concerned about retention today because, as the economy improves, employees have more options. During the economic retrenchment after 2001, job opportunities were scarcer, and employees were less likely to leave than during the late 1990s. Now, the prospect of a healthy job market--and the rash of job-hopping that could accompany it--has entrepreneurs fearing they'll be unable to hang on to their best employees.

While opportunities are expanding, immigration restrictions, retiring baby boomers and shifts in the way people view the employer-employee relationship may also be increasing the difficulty of keeping key workers. The pressure is even greater on small companies because they usually can't offer pay, benefits and opportunities for advancement superior to those available in big companies.

But some entrepreneurs are overcoming the challenge, using both time-tested and innovative new techniques for employee retention. Patterson, for example, lost only three people from her 46-person staff during 2005. Her company's turnover rate is less than half the industry average, according to Patterson, who says she has used a combination of inducements to help keep her best people.

One way she hangs on to top workers is by offering a benefits package that matches those of larger employers. Patterson's workers get fully paid health insurance including dental and vision coverage for themselves and their families. The company matches 100 percent of 401

(k) contributions up to the first 5 percent of salary. Tuition for engineering and project-management education courses is completely covered, as is half of tuition for work toward any degree of the employee's choice.

"Employees are looking for more than just a paycheck," Patterson explains. "They are looking to be treated fairly, be recognized for what they do and have the chance for advancement." She addresses other concerns by offering flexible hours, sponsoring monthly meetings where employees who have ideas for improving operations can speak up, and providing training and opportunities for promotion. "That's one of the things we notice most," she says. "The people who have left--it's because they don't see the chance for advancement."

If you are losing more people than you'd like, you don't have to sit there and take it. Many things can contribute to an employee's decision to move on, but one stands above the rest. "The immediate supervisor is by far the number-one reason people stay or go," says Alan Preston, a West Chester, Pennsylvania, retention consultant. Retention experts say that people don't work for companies, they work for people. It's a good thing to keep in mind when you're addressing the retention issue.

At ImageRight, a \$30 million content management software company in Conyers, Georgia, annual turnover is less than 1 percent, according to co-founders Don Elias, 51, and Mike Jansen, 44. One reason is that they keep the 105-person organization flat, with no more than one manager between any employee and the founders. "It's very easy for us to tell whether a manager is doing something wrong," says Elias. "Then we address it."

After you handle problems with supervisors, take a look at how you hire. Companies with low turnover almost universally say it starts with hiring the right people to begin with. Les McKeown, a Marblehead, Massachusetts, HR consultant and author of *Retaining Top Employees*, says improving hiring processes is one of the most powerful actions a small firm can take to reduce turnover.

Entrepreneurs put themselves at a disadvantage because they often hire on instinct rather than with the help of a system, McKeown says. They may wind up with a company full of people just like themselves, in which case many may leave because they don't see opportunity for advancement. McKeown recommends bringing in a professional HR manager early on to keep personal idiosyncrasies from negatively influencing hiring.

A company's culture also exerts profound influence on retention. When hiring, address such factors as recognition, development, and the opportunity to understand and influence the company's overall objectives and success.

At [J.L. Patterson](#), employees get to stand up and talk about ideas they have for improving the company at monthly "lunch universities." Younger employees especially appreciate the opportunity to make suggestions to company veterans who may have "we don't do things that way" attitudes, Patterson says. "And we bring lunch," she adds, "so everybody attends."

It's also important to develop employees. Tuition assistance isn't the only way to help employees gain career-boosting skills. Cross-training helps them gain new proficiencies and also benefits the company. Having the latest technology is critical for retaining technical workers who must keep their knowledge up-to-date. Few small firms can afford bleeding-

edge technology, but there are other solutions. Patterson, for instance, beta tests key software applications so employees get to use new technology and also give feedback to developers.

Corporate culture is the murkiest part of the retention equation. Far more important than fringe benefits is the feeling that a company cares about, listens to and supports its employees. "People stay where they feel at home," says McKeown. "If you make an environment where people feel at home, they're much less likely to go."

One person's home can be another's hell, of course, which doesn't make the job of crafting a retention-boosting culture any easier. One approach is to listen to employees and give them what they need to feel at home. Another is to choose a culture and then find people to fit the environment. That's the tack taken by Go2Call Inc., a 32-person Evanston, Illinois, company that sells VoIP services. The 7-year-old company has several employees who have been there for more than five years, says co-founder Larry Spear, 39. The company, which Spear started with John Nix, 37, projects \$24 million in sales for 2006.

Challenge is an important element in the company culture and in the people it hires, Spear says. "We recruit for the long term, and we're looking for extremely talented people who can get jobs elsewhere," he says. "So we put in place a plan that challenges them every day." Keeping high-achieving employees challenged keeps them engaged, Spear says. One way the company does it is by setting aggressive goals. Another approach is to move people who are feeling stale into new positions in the company where they will face new challenges.

However, Spear doesn't aspire to make Go2Call an endurance contest. Employees are rarely asked to work weekends, and the company offers flextime to help them maintain work-life balance. "We also opened up an office on the other side of Chicago to make it more convenient for people who live there so they don't have such long commutes," Spear says. "That's helped us retain some of our key engineers."

No entrepreneur gets a perfect score on retention. Some employees should leave while others, for one reason or another, simply won't be kept. And some approaches to retention do more harm than good.

One of the worst remedies is to throw money at employees who are viewed as important to the enterprise. Entrepreneurs who hope to do well at retention must offer competitive packages of pay and benefits, experts say. Beyond that, however, pay isn't the answer. "Trying to get people to stay by giving them more money is a three- to six-month Band-Aid at best," McKeown says. "Money is a satisfier, not a motivator. You can't use compensation as a retention tool on its own."

It's also worth considering that some employees, including people who may be important to the enterprise, are actually hindering retention by their presence. This is especially common among entrepreneurial companies, McKeown says. As firms grow, old-timers who have been there since the beginning often block other employees from having input or opportunities to advance. "When I get called into entrepreneurial businesses that have high turnover, it almost always turns out there is a big dog lying around the business who has the ear of the boss," he says.

Today's successful retention program may not work tomorrow, as employee needs and competitive offerings evolve. The workers of the near future are likely to be more interested

in work-life balance than baby boomers are, and also less likely to job hop than Gen Xers, says McKeown. "They're not going back to the same mindless loyalty [of baby boomers], but they are hardworking and loyal," he says.

Ultimately, employee retention and entrepreneurial success are different sides to the same coin. Entrepreneurs can't succeed without quality employees. But top-shelf workers won't stick around a floundering enterprise, either. "If the company grows and continues to grow, and it's challenging every day, people will stay," says Spear. "If our revenue levels off or [we] become unprofitable, it's going to be a different situation. The best way to retain employees is by working hard to make sure the company grows."

## Top Retention Tips

- **Tip #1: Listen Well.**

There is no one-size-fits-all solution to retention. Jacqueline Patterson, founder of engineering firm J.L. Patterson & Associates in Orange, California, asks employees what they want, then supplies it. "If they want to advance in the technical area, give them technical seminars," she says. "If they want to advance in management, enroll them in project-management courses." When a worker gave birth and didn't want to use full-time day care, Patterson let her work from home four days a week for a year. Says Patterson, "Flexible hours and ways of working are very important to [workers] in the company."

- **Tip #2: Test the Waters.**

Bad employees can slip through even the most rigorous interviews. That's why Don Elias and Mike Jansen, co-founders of software company ImageRight in Conyers, Georgia, send new hires through a six-week boot camp to evaluate technical and people skills. ImageRight holds two to three camps a year, each with up to a dozen people. Despite extensive pre-interviews, as many as half drop out or are asked to leave before the end, Elias says. ImageRight spends \$500,000 annually on camps, but it's worth it, says Elias: "Once they get through the boot camp, we know they actually fit the company."

- **Tip #3: Give Them Ownership.**

In the late 1990s, everybody wanted stock options. After the dotcom bust, nobody did. Now, giving employees equity stakes may be coming back. Entrepreneurs are finding that workers who own part of the company are less likely to leave. Employees, meanwhile, are realizing that their best prospects lie with companies that not only build value, but also share it with team members. Larry Spear, co-founder of Go2call Inc., an Evanston, Illinois, company that sells VoIP services, says his company's retention plan centers on stock options. "Most of the employees here have equity in the company," he says. "That's hard to get with another company, and the value of our shares has gone up."

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